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Report to the Honorable
William Proxmire, U.S. Senate

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CUBAN REFUGEE RESETTLEMENT

Federal Administration of VisionQuest Projects Inadequate

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United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

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December 30, 1988

The Honorable William Proxmire
United States Senate

Dear Senator Proxmire:

In your letter of December 17, 1987, you asked us to review federal funds awarded to VisionQuest National, Ltd., a profit-making organization that provides treatment programs for troubled youth. VisionQuest was one of several organizations selected in the early 1980s to assist the federal government in handling an influx of Cuban refugees by providing them with resettlement services. Events in Cuba had resulted in a mass, uncontrolled emigration of Cubans to the United States in April 1980. By September 1980, an estimated 124,800 Cubans had arrived. The Justice Department in 1982 was given ultimate legal responsibility for the Cuban entrants and funding to provide services for them.

Entrants placed with VisionQuest were adolescents and young adults who had been institutionalized in Cuba for mental illness and/or criminal offenses. Many also had physical health problems. In general, these individuals lacked English language skills, and their socialization and acculturation to the U.S. life style was markedly low.

In the past 5 years, VisionQuest has received funds from two federal agencies to provide community-based mental health services for this group of Cuban entrants. Most funds have been awarded through a cooperative agreement[1] between the Refugee Mental Health Program (RMHP), operated by the National Institute of Mental Health (NIMH), and VisionQuest. NIMH is a component of the Alcohol, Drug Abuse, and Mental Health Administration (ADAMHA) under the Public Health Service (PHS) of the Department of Health and Human Services (HHS). VisionQuest also has received federal funds from the Community Relations Service (CRS) in the Department of Justice.

The Office of Refugee Resettlement (ORR) in the Social Security Administration awarded VisionQuest its first federal cooperative agreement for about $1.7 million for the July 1981-December 1982 period. In January 1983, NIMH assumed responsibility for the Cuban entrant program. From then until March 1988 through seven award periods, NIMH awarded

[1]A cooperative agreement is a federal funding mechanism similar to a grant, used when a federal awarding agency plans to actively participate with the recipient organization in carrying out program activities.

VisionQuest about $16.5 million. In addition, CRS awarded grants totaling $585,000 to VisionQuest from December 1984 to September 1988, for a total of about $18.8 million in federal funds. (See p. 17.) From July 1, 1981, to February 28, 1988, a total of 245 Cubans participated in the VisionQuest programs, according to information furnished by VisionQuest.

Results in Brief

There were deficiencies in NIMH's administration of the VisionQuest Cuban entrant program. NIMH did not carry out its overall administrative and monitoring responsibilities as required by HHS and PHS policy. This included not enforcing PHS's standard conditions that VisionQuest (1) arrange for independent audits of its federal projects at least every 2 years and (2) submit financial status reports on time. Also, NIMH did not maintain much of the required documentation concerning the award of federal funds to VisionQuest for services to Cuban entrants.

VisionQuest may have rebudgeted funds without prior NIMH approval and may have claimed unallowable lease expenses that were paid for with NIMH funds. Also, VisionQuest and NIMH never developed an indirect cost rate, as required by PHS policy. If NIMH has administered its other cooperative agreements for outpatient treatment for Cuban entrants in this manner, they too would be open to question.

Objectives, Scope, and Methodology

In response to your letter and subsequent discussions with your office, we agreed to provide information on VisionQuest's Cuban entrant program, identifying and describing

1. the amounts and sources of federal funds awarded,

2. how the federal funds were spent,

3. the propriety of VisionQuest leases that were paid for with federal funds, and

4. how NIMH carried out its administrative responsibilities.

Our review was conducted from January to June 1988 at the NIMH offices in Rockville, Maryland. We examined federal regulations, HHS and PHS grant administration manuals, and related program guidelines issued by RMHP. In addition to obtaining and reviewing financial and program documents, including budget proposals and award notices, we

interviewed agency officials. We could not obtain data from NIMH files on how VisionQuest spent the funds received for the Cuban entrants. This was because organizations awarded federal grants and cooperative agreements need not report expenditures by specific cost category (line item), only by total direct and indirect costs. Our review was done in accordance with generally accepted government auditing standards.

As agreed with your office, we did not visit VisionQuest, but we discussed our findings with the HHS Office of the Inspector General's (OIG) staff, who agreed to examine VisionQuest's records and documents on selected issues. The HHS OIG staff will issue a separate report on their findings.

Funding Not Related to Participation

The number of participants in VisionQuest's programs varied from one award period to another, and the organization did not always achieve its estimated numbers of participants. NIMH, however, did not adjust the funding of VisionQuest's program to reflect actual participation. As a result, NIMH lost the opportunity to renegotiate the terms of the cooperative agreement, and VisionQuest may have received and spent more funds than necessary to operate its Cuban projects. (See pp. 18-20.)

Lengthy Participation by Some Cubans

Cuban entrants were to complete the outpatient treatment program within 18 months, according to VisionQuest's project proposals. In the first four NIMH award periods, the turnover rate for participation was low and the average time each entrant spent in the program ranged from 19 to 30 months. While 45 Cubans were discharged in 18 months or less, 17 spent from 19 to 24 months at VisionQuest, 34 stayed for 25 to 36 months, and 28 remained 37 months or more.

In October 1986, NIMH issued its first policy guideline on this subject, stating that Cubans in outpatient treatment programs should remain no more than 6 to 9 months. With this policy statement, turnover increased significantly—to 60 and 90 in the NIMH fifth and sixth award periods—and all participants were released in less than 18 months from when they entered. (See pp. 20-22.)

Effectiveness of Service and Treatment Not Evaluated

VisionQuest's stated program objective was to treat Cuban entrants and help them make the transition to life in the United States. Although VisionQuest obtained information on the destinations of the Cubans as they left the program, it did not seek subsequent information. No one actively followed up on the Cubans after they were discharged from outpatient treatment programs, according to NIMH officials. Consequently, the effectiveness of VisionQuest's treatment and service activities has not been evaluated. (See pp. 22-23.)

Documents Missing From Official Files

Documentation in the official files was inadequate. Because we were unable to obtain needed financial and program documents from NIMH, we could not assess how federal funds were spent and whether VisionQuest fully complied with federal regulations and HHS and PHS policies.

Required documents that were incomplete or absent from the official NIMH files included:

1. Narrative project proposals and detailed budget requests

2. Written records of negotiations and agreements on project budgets

3. Budget analyses that explain how direct and indirect costs were negotiated and that support approved project budgets

4. Written VisionQuest requests to rebudget funds among line items and written NIMH approvals to do so

5. Cooperative agreement monitoring statements, prepared by NIMH to follow up on recommendations made during on-site program evaluations, audits, and financial analyses and to ensure that VisionQuest complied with federal regulations and PHS policies and took appropriate action (see pp. 23-28).

Indirect Cost Rates Not Developed for VisionQuest

Organizations that receive federal funds through grants, cooperative agreements, and contracts generally develop budgets and incur expenses for direct and indirect costs, i.e.:

- A direct cost is one that can be identified with a specific cost objective or a grant, cooperative agreement, or contract. Examples include personnel assigned to a particular grant project or equipment purchased for a specific contract activity.

- An indirect cost is one incurred in the pursuit of two or more cost objectives. Examples of indirect costs include administrative staff whose efforts benefit several projects and automatic data processing equipment shared by several programs. After indirect costs have been identified in total, an indirect cost rate is to be developed to determine the indirect cost amounts applicable to each project. For NIMH projects, PHS policy requires that an indirect cost rate be developed by the funding organization and the award recipient for each fiscal year.

  During the 1980s, VisionQuest provided services under contracts with several state and county law enforcement agencies, in addition to the services for Cuban entrants funded with federal grants and cooperative agreements. NIMH did not, however, negotiate with VisionQuest to determine the federal government's fair share of indirect costs for the cooperative agreement. Furthermore, in its budget proposals, VisionQuest did not categorize these as indirect costs, but included them as a direct cost in a cost category described as "burden allocation."

  The NIMH official files included no documentation as to why VisionQuest was permitted to allocate these costs as direct costs. There was no evidence that NIMH understood the basis for the "burden allocation" estimated by VisionQuest; that is, exactly what items were included as burden. Furthermore, no data were provided as evidence that the federal Cuban entrant program was paying no more than its fair share of these costs. According to our calculations made from available budget request data, VisionQuest requested about $2.4 million for "burden allocation" during the six NIMH award periods covering January 1983-February 1988. Over this time, the ratio of estimated burden allocation costs to total cooperative agreement costs increased from 8 percent in the first award period to 21.4 percent in the sixth award period, but the official files do not document how VisionQuest developed these amounts. (See pp. 28-29.)

VisionQuest Did Not Submit Required Expenditure Reports

Federal regulations require submission of a report of expenditures, the Financial Status Report, to document the financial status of grants and cooperative agreements. This report, required at least annually for each budget (award) period, is to be submitted no later than 90 days after the close of an award period unless the awarding office formally extends the reporting time. VisionQuest did not submit acceptable financial status reports for any award period until July 1986, after the fifth NIMH award

period started. Realizing it had not submitted reports previously, VisionQuest submitted reports for the previous four NIMH award periods at one time.

The PHS Grants Administration Manual provides that failure to submit required reports within the time allowed may result in various enforcement actions. These include suspension or termination of an active grant or cooperative agreement, withholding of additional awards or payments, or changing to the reimbursement method of payment. NIMH applied none of these and continued providing additional funds to VisionQuest.

Total funds to be provided to VisionQuest for the sixth award period were decreased by $171,190, the NIMH award notice showed. According to the VisionQuest financial status report, this was because funds in that amount were to be carried over from the fifth award period. To calculate this figure, the cumulative amount spent was subtracted from the cumulative amount awarded for VisionQuest's first five award periods. According to our interpretation of the PHS guidelines, a separate financial report is required for each award period. The reports are not to be combined as NIMH permitted VisionQuest to do.

Furthermore, supplemental cooperative agreement award notices were not approved by NIMH for the three award periods during which VisionQuest spent $196,150 more than authorized. (See pp. 29-32.)

Leasing Arrangements Not Documented at NIMH

Federal regulations permit recipients of federal grants and cooperative agreements to lease property (e.g., living facilities, vehicles, and equipment) and charge the costs to federal agencies. This is allowed so long as complete documentation concerning the circumstances and cost determinations is developed and maintained. According to its budget proposals, VisionQuest planned to enter into lease agreements during each award period it received funds from NIMH. In turn, VisionQuest charged NIMH's Cuban entrant program for the lease costs. Because limited documentation was available at NIMH, we could not determine the extent to which VisionQuest entered into lease arrangements with its employees and stockholders. VisionQuest officials preferred to lease property items for the Cuban entrant program, NIMH officials told us, rather than purchase them. NIMH and VisionQuest officials believed that these leasing practices would be in the best interests of the federal government.

Details of VisionQuest's leasing arrangements for living facilities, vehicles, equipment, and furniture were not on file at NIMH. Therefore, we could not determine whether these arrangements conformed with Federal Acquisition Regulations. We discussed these issues with the HHS OIG staff, who agreed to examine records and documents at VisionQuest headquarters to ascertain the lease expenses claimed by VisionQuest and charged to NIMH cooperative agreements. (See pp. 32-33.)

Conclusions and Recommendations

Because essential documents related to the cooperative agreement awards NIMH made to VisionQuest were incomplete or unavailable, we could not fully address all of our study objectives. However, NIMH did not carry out its overall administrative and program monitoring responsibilities as required by HHS and PHS. Also, NIMH did not follow its internal control guidelines and enforce established PHS requirements, including requiring timely submission of expenditure reports from VisionQuest.

VisionQuest may have rebudgeted funds without prior approval from NIMH, according to NIMH documents we reviewed, and the way that VisionQuest leased property and charged the lease expenses to the NIMH cooperative agreement may have violated regulations. NIMH and VisionQuest did not negotiate indirect cost rates, as required by PHS policy, for any award periods.

Since 1983, NIMH, through its RMHP has funded other organizations, in addition to VisionQuest, to conduct community-based treatment programs for Cuban entrants. If NIMH administered the cooperative agreements with these other organizations in the same way as the VisionQuest projects, similar deficiencies and oversights may have occurred.

Therefore, we recommend that the Secretary of HHS direct PHS grants management and program officials to

- evaluate NIMH's procedures, activities, and records relating to VisionQuest's cooperative agreements, and obtain and develop needed documentation to bring NIMH's official files into compliance with PHS policies; and
- review NIMH's administration of all cooperative agreements for community-based treatment of Cuban entrants to determine whether NIMH carried out its responsibilities in compliance with PHS policies.

Agency Comments

HHS, in its written comments, concurred with our recommendations. HHS stated that for the major issues cited, NIMH has taken corrective action to bring its files into compliance with PHS policies. HHS indicated that NIMH grants management and RMHP officials have initiated a process for reviewing and monitoring their administrative procedures and that PHS will ensure that these recommendations are implemented during fiscal year 1989.

HHS also furnished technical comments on various segments of the report to clarify and augment the facts we presented. These technical comments have been included, as appropriate, in the report. HHS's complete comments are included in appendix II.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will provide copies to HHS, VisionQuest, and interested congressional committees. In addition, we will make copies available to others on request. The major contributors to this report are listed in appendix III.

Sincerely yours,

for Lawrence H. Thompson
Assistant Comptroller General

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Abbreviations

ADAMHA	Alcohol, Drug Abuse, and Mental Health Administration
CRS	Community Relations Service
FEMA	Federal Emergency Management Agency
GAO	General Accounting Office
HHS	Department of Health and Human Services
NIMH	National Institute of Mental Health
OIG	Office of the Inspector General
ORR	Office of Refugee Resettlement
PHS	Public Health Service
RMHP	Refugee Mental Health Program

Cuban Refugee Resettlement: Federal Administration of VisionQuest Projects Inadequate

Between April and September 1980, about 124,800 Cubans arrived in the United States in what became known as the "Freedom Flotilla." Many had criminal records, mental and physical illnesses, and social adjustment problems. To assist federal agencies and state and local governments with the reception, processing, and resettlement of the Cubans, President Carter directed the Federal Emergency Management Agency (FEMA) to coordinate activities across government agencies. In May 1980, four U.S. military facilities were designated as processing centers for the Cubans. The reception centers were located in Fort Chaffee, Arkansas, Eglin Air Force Base, Florida, Fort McCoy, Wisconsin, and Fort Indiantown Gap, Pennsylvania.

By 1982, however, these centers were closed and entrants in need of mental health care were transferred to correctional institutions throughout the country, St. Elizabeths Hospital in Washington, D.C., and outplacement programs in several states. The goal was to provide the Cubans with mental health treatment services, rehabilitative services, and vocational training to maximize the possibility that they eventually could be deinstitutionalized, sponsored, and resettled in the community.

HHS and Justice Responsible for Cuban Entrants

Within the Department of Health and Human Services (HHS), the Office of Refugee Resettlement (ORR) in the Social Security Administration originally was given the task in July 1981 of treating the institutionalized Cuban refugees who had behavioral problems. Its purpose was to gradually integrate them into society. In 1982, the Justice Department was given the ultimate legal responsibility for the Cuban entrants and the funds to provide services for them. In that year, HHS entered into an interagency agreement with the Justice Department, which transferred funds to HHS for use by the National Institute of Mental Health (NIMH). A unit of the Alcohol, Drug Abuse, and Mental Health Administration (ADAMHA) under the Public Health Service (PHS), NIMH uses the money to administer a program for the resettlement of those refugee Cubans requiring mental health services. The program is handled through NIMH's Refugee Mental Health Program (RMHP), formerly known as the Cuban/Haitian Mental Health Unit.

For fiscal years 1984-88, Justice allocated an estimated $71.6 million to NIMH for services to the Cubans. The money is earmarked for the development, implementation, and oversight of mental health inpatient and outpatient programs to enable the remaining institutionalized Cuban entrants to make the transition to independent living in the United States. According to an NIMH official, a total of 1,774 Cubans have

received treatment services. As of March 1988, according to an NIMH official, 3,245 of the Cuban refugees remained in prisons.

Treatment Provided in Three Components

Cuban entrants have been placed in three major components (described below) according to assessments conducted by NIMH, PHS, or Justice. The entrants normally move through the system in the order indicated, although there have been some exceptions.

1. Penitentiaries—On request, PHS evaluates the mental status of Cuban entrants placed into these facilities. Through contracts with private mental health professionals, RMHP conducts psychological, psychiatric, and other mental health evaluations for the entrants. Periodically, the Justice Department reviews the cases of all entrants remaining in custody to determine whether they may be transferred into components of the RMHP program. These decisions are based on judgments concerning the potential for violence and/or criminal activity. The individuals remain in the institutions until it is determined that less secure settings are appropriate.

2. St. Elizabeths Hospital—Cuban entrants requiring psychiatric care progress through four treatment phases at this facility. During the initial phase, the entrant is assigned to the admissions unit, where comprehensive medical, psychiatric, psychological, and social assessments are performed and an individual treatment plan developed. During the second and third phases, emphasis is on psychotherapeutic intervention, support services, and psychotherapy. During the final phase, the acquisition of social and survival skills is emphasized, after which individuals are matched with appropriate outplacement projects.

3. Community-based treatment programs—RMHP has four community-based treatment projects. These are operated by (a) VisionQuest National, Ltd.; (b) the Institute for Independent Living, Kansas City, Missouri; (c) Western Care, Chino and Pomona, California; and (d) Human Services Resources, Norristown, Pennsylvania. As of September 30, 1987, these four outplacement projects had the capacity to treat about 220 Cuban entrants. Our review focused on VisionQuest's programs through fiscal year 1988.

VisionQuest National, Ltd., Provides Youth Services

A private, for-profit organization, VisionQuest contracts primarily with local and state agencies to provide counseling and treatment services for delinquent and emotionally disturbed juveniles. Such services constitute an alterative to prison or detention centers for these juveniles. Established in 1973, VisionQuest has its executive headquarters in Tucson, Arizona, with other offices operating in California, New Mexico, and Pennsylvania. VisionQuest's philosophy is to provide its clients challenging experiences based on the rite of passage from adolescence to adulthood that plains Indian youths undergo. VisionQuest offers various treatment activities through wilderness camps, wagon trains, learning centers, and residential settings.

VisionQuest developed programs for Cuban entrants modeled after its other programs established to treat American youth. (The development and funding of the program is described on p. 17.) Cubans referred to the VisionQuest program had histories of serious behavioral and psychological problems. Many also had criminal records and/or physical health problems. In general, the Cuban entrants lacked English language skills, and their socialization and acculturation to the U.S. life style was markedly low.

VisionQuest's federally funded programs included the Cuban Residential Psychiatric Care and HomeQuest programs, developed for NIMH under a cooperative agreement, and the Cuban After Care (Sponsorship) program, funded and administered by the Department of Justice. Specifically, these featured the following:

- The residential program, which emphasized group living experiences, provided counseling, education, and medical and mental health treatment. VisionQuest first assessed the Cubans entering the residential program to identify their physical, developmental, social, cultural, educational, psychological, vocational, and recreational needs and to develop appropriate projects and activities. Individual treatment plans were developed and quarterly progress reports for each participant prepared. From July 1981 through February 1988, a total of 245 Cubans participated in the residential program.
- The HomeQuest program, started in 1984, was designed for those who completed VisionQuest's residential program but were in need of continuing support in a controlled environment. HomeQuest provided apartments, supervised by VisionQuest staff, to help Cuban participants acquire skills necessary for independent living.

- The After Care Sponsorship program was the final step in the continuum of VisionQuest programs aimed toward self-sufficiency. It was tailored for Cubans who were about ready to move into the community but had no arranged sponsor (usually a family member).

VisionQuest has attracted much attention for its approaches to counseling and treating troubled youth. In December 1987, the CBS television program 60 Minutes reported on VisionQuest, alleging mismanagement and questionable expenditure of funds.

Objectives, Scope, and Methodology

We were asked by Senator William Proxmire, in his December 17, 1987, letter and through subsequent discussions with his office, to review VisionQuest's Cuban entrant program. In response, we agreed to (1) confirm the amounts and sources of federal funds awarded to VisionQuest for the Cuban entrant program, (2) determine how VisionQuest spent the federal funds, (3) examine the propriety of VisionQuest's lease policies, and (4) review NIMH's performance of its administrative responsibilities associated with the management of the cooperative agreements.

We conducted our review from January to June 1988, primarily at NIMH in Rockville, Maryland. We did limited work at the Community Relations Service (CRS) in the Department of Justice in Bethesda, Maryland. With the approval of the Senator's office, however, we narrowed our review to the NIMH-funded programs because NIMH has administered 97 percent of the federal funds provided to VisionQuest since 1983.

To determine the amounts of federal funds received by VisionQuest, we examined the official award documents issued by NIMH and the financial status reports VisionQuest submitted that were in the NIMH files. We reviewed the project proposals and related budget requests VisionQuest submitted to NIMH, to the extent they were in the official files. Also, we reviewed the HHS and PHS grants administration manuals and NIMH and RMHP guidelines. Finally, we met with NIMH officials to discuss these documents and solicit their views on the administration of the VisionQuest programs.

Federal regulations do not require organizations awarded federal grants and cooperative agreements to report expenditures by specific cost category (line item). Thus, we were unable to obtain data on how VisionQuest spent the funds received for the Cuban entrants program. The regulations require only that expenditures be reported generally as either direct or indirect costs. PHS policy and federal regulations require

that VisionQuest maintain detailed records on the expenditure of funds as support for the general expenditure reports submitted to NIMH.

To determine the circumstances under which private organizations may enter into lease agreements regarding projects funded by federal agencies, we reviewed Federal Acquisition Regulations.[1] These regulations explain when for-profit organizations may charge the government rental costs related to lease agreements with those in the organization who have a financial interest. We also reviewed the HHS grants administration manual and the PHS grants policy statement and their provisions related to lease agreements, user charges, and depreciation rates. Because NIMH's official files did not contain detailed documentation on VisionQuest's lease arrangements, we could not determine their propriety. We did, however, identify the conditions and restrictions for these arrangements, as stated in federal regulations and PHS policies.

To assess whether NIMH carried out its administrative and program responsibilities, we reviewed the criteria concerning these in the HHS and PHS grant management manuals. The responsibilities we assessed included record-keeping, budgeting, financial management, reporting, and monitoring activities. We also examined the specific terms and conditions related to the cooperative agreement, discussed these issues with responsible NIMH staff, and evaluated whether those applicable to NIMH were carried out.

As agreed with the requester's office we did not visit VisionQuest, but we discussed our findings with the HHS Office of the Inspector General (OIG) staff, who agreed to examine VisionQuest's records and documents relating to selected issues. The HHS OIG will issue a separate report on its findings.

Our review was done in accordance with generally accepted government auditing standards.

[1]The Federal Acquisition Regulations generally apply to contracts between for-profit organizations and federal agencies. The standard conditions of cooperative agreements with for-profit organizations also require that these regulations be followed.

Funding of VisionQuest's Cuban Entrant Program

VisionQuest's involvement with Cuban entrants began in the summer of 1980 when FEMA hired some VisionQuest staff to serve as supervisory consultants to the Resettlement Center in Fort Indiantown Gap, Pennsylvania. As a result of this experience, the Pennsylvania Department of Health and Human Services awarded VisionQuest funds for the care of Cubans. When ORR took direct responsibility in July 1981 for preparing Cuban entrants for life in the United States, it awarded VisionQuest $1,652,602 to provide mental health services for the Cubans over an 18-month period.

NIMH, after it assumed responsibility for the Cuban entrant program in January 1983, funded VisionQuest through a series of seven award periods (6-15 months each) for a total of $16,520,704 (see table I.1). In addition, the Justice Department's CRS awarded to VisionQuest funds amounting to $585,170 during fiscal years 1985-88 for the Cuban After Care program. Our review did not, however, include CRS awards to VisionQuest.

Table I.1: Federal Funding of VisionQuest's Cuban Entrant Program (1981-88)

	Award period	
Number	**Dates**	**Award amount**
ORR	7/1/81-12/31/82	$1,652,602
NIMH		
1	1/1/83-6/30/83	1,456,190
2	7/1/83-12/31/83	1,590,608
3	1/1/84-3/31/85	4,598,065
4	4/1/85-12/31/85	2,775,796
5	1/1/86-11/30/86	2,976,160
6	12/1/86-2/29/88	2,435,805
7	3/1/88-10/31/88	688,080
Subtotal		**$16,520,704**
CRS		
	12/1/84-11/30/85	$154,738
	12/1/85-11/30/86	153,894
	12/1/86-9/30/87	150,238
	10/1/87-9/30/88	126,300
Subtotal		**$585,170**
Total		**$18,758,476**

NIMH Program and Financial Management Responsibilities

As previously noted, NIMH awarded funds to VisionQuest through cooperative agreements. 31 U.S.C. 6301-6308 established the use of such agreements in situations in which, among other things, a federal awarding agency intends to be substantially involved with the recipient organization in carrying out an activity or providing services. The regulations, conditions, and administrative requirements are similar for grants and cooperative agreements, even though with grants there is generally little involvement or participation by a federal agency.

Two NIMH officials share responsibility for managing the cooperative agreements awarded to VisionQuest:

- The government project officer is responsible for the technical or program aspects of the cooperative agreement. This official determines the adequacy of the applicant's proposals to accomplish project objectives, monitors the award recipient's activities to ensure compliance with program requirements, and evaluates the overall quality and effectiveness of the recipient's performance.
- The grants management officer is responsible for the financial management aspects of cooperative agreements. This official reviews the applicant's budget proposals and, working with the government project officer, negotiates the budgets with the applicant. The grants management officer also is responsible for ensuring that required reports are furnished in a timely manner and maintained in the official files and that grant conditions dealing with administrative and financial matters are carried out as stated.

Both officials were to work closely with VisionQuest staff to ensure the efficient and effective use of federal funds and provision of quality services to the Cuban entrants. We found, however, deficiencies in both officials' performance of these responsibilities, as discussed in the sections that follow.

Funding Not Related to Number of Cubans Participating

The number of participants in VisionQuest's programs varied from one award period to another and continually changed during each award period (see table I.2). NIMH did not, however, adjust the funding to the actual, as opposed to the projected, number of participants. The number of participants directly affected the amount of funds VisionQuest requested and received during each award period. The most expensive cost category for the cooperative agreement, "personnel," included funding for VisionQuest staff to provide treatment and services for the planned number of Cuban participants. "Direct client expenses" was

another cost category directly affected by the number participating. These expenses included food, clothing, stipends, and medical insurance, budgeted for each participant.

Table I.2: Cuban Participants in VisionQuest Program (July 1981-Feb 1988)

Award period		Cuban entrants			
No.	Dates	No. of months	Carried over	Admitted	Departed
ORR	7/81-12/82	18	•	30	17
NIMH					
1	1/83-6/83	6	13	42	5
2	7/83-12/83	6	50	28	7
3	1/84-3/85	15	71	24	21
4	4/85-12/85	9	74	23	20
5	1/86-11/86	11	77	32	60
6	12/86-2/88	15	49	66	90
Totals				**245**	**220**

The budget estimates VisionQuest submitted to NIMH were based on each participant being in the program for the duration of the award period; e.g., 183 days for a 6-month period and 365 days for 12 months. However, during any award period, some participants either entered the program after it started and/or left before it ended. Therefore, even in the award periods for which VisionQuest's estimates of total Cuban participants were close to the number actually referred, the number of actual days Cubans participated was less than the estimates included in VisionQuest's budgets.

VisionQuest's cooperative agreement stated:

"NIMH will exercise its best efforts to obtain maximum capacity, but does not guarantee that the quota of mentally or developmentally disabled Cuban entrants can be met. In the event that the number of entrants does not meet the projected level of clients, NIMH reserves the right to renegotiate the budget to be proportionately decreased commensurate with the number of entrants actually received."

But, despite the importance of detailed data on participants and their expenses to the funding process, official NIMH files included no evidence that NIMH officials requested such data from VisionQuest on a systematic basis and adjusted VisionQuest's funding to reflect lower actual participation of Cubans. As a result, for some award periods the average cost for each participant/day in VisionQuest's program was significantly

higher than estimated. In award period 1, the average cost for each participant/day (includes direct and indirect costs) was estimated to be $114. It was actually $212 because of the fewer Cubans actually participating. In award period 2, the estimated cost was $124, the actual cost $143.[2] No funding adjustments were made to allow for deviations from participant estimates.

In any award period, certain fixed costs, including some for personnel costs, were incurred regardless of the number of participants. However, for a program such as VisionQuest's, some costs will vary depending on the changing number of participants. NIMH should have made funding adjustments for the actual number in the program. By not analyzing periodic participation data and not making timely funding adjustments, NIMH lost the opportunity to renegotiate the terms of the cooperative agreement by not requiring VisionQuest to cut back on its operations. As a result, VisionQuest received and spent more funds than necessary to operate its Cuban projects.

HHS in its comments gave several reasons why NIMH did not adjust VisionQuest's funding levels during award periods when planned Cuban participation levels did not materialize. We can appreciate that VisionQuest incurred certain fixed costs regardless of the number of Cuban participants. NIMH had no documentation, however, to show how the funds for these award periods were spent, nor was evidence available that NIMH attempted to renegotiate VisionQuest's funding levels.

Also, in its comments HHS did not refute our statement that planned participation data were unavailable in NIMH files for most award periods. This is important because planned participation data should have been a principal factor in deciding VisionQuest's funding levels for each award period.

Lengthy Participation by Some Cubans

During the ORR award period, entrants were to complete the outpatient treatment program within 18 months, according to VisionQuest's project proposals. This was the only established time frame in effect for Cubans participating in VisionQuest until October 1986, when NIMH issued a written policy statement on the matter. The turnover of Cuban participants in the ORR award period and in NIMH's first four award periods was low, VisionQuest data showed (see table I.2.).

[2]We attempted to obtain and develop estimated and actual costs on Cuban participants for the other NIMH award periods, but could not because planned participation data were not available at NIMH.

The average time spent in the program by participants during the ORR and first three NIMH award periods ranged from 19 to 30 months. Of the first 30 Cuban entrants who entered during the ORR award period (ending December 1982), 21 left within 18 months of starting (see table I.3). Of the other 9, however, 3 were discharged in 19-24 months and 6 in 37 months or more.

Table I.3: Time Spent in VisionQuest Program by Cuban Participants
(July 1981-Feb. 1988)

Award period		Months spent in VisionQuest program				
Number	Dates	18 or less	19 - 24	25 - 36	37 or more	Average months in program
ORR	7/81-12/82	21	3	0	6	30
NIMH:						
1	1/83-6/83	9	10	10	13	27
2	7/83-12/83	5	0	15	8	28
3	1/84-3/85	10	4	9	1	19
4	4/85-12/85	17	6	0	0	12
5	1/86-11/86	32	0	0	0	9
6[a]	12/86-2/88	41				

[a]Twenty-five Cubans were still in the VisionQuest program during our review.

Of the 70 Cubans admitted to the VisionQuest program from January 1 to December 31, 1983 (award periods 1 and 2), 14 were discharged within 18 months. Ten left in 19-24 months, and 25 in 25-36 months, while 21 Cubans were in the program for 37 months or more. On average, the 24 Cubans who entered the program during award period 3 (Jan. 1, 1984-Mar. 31, 1985) were discharged earlier than in previous award periods. Ten left within 18 months, 4 in 19-24 months, and 9 in 25-36 months. Only one stayed longer than 36 months.

VisionQuest's turnover rate accelerated significantly when NIMH implemented its October 1986 policy guideline stating that participants in such outpatient treatment programs should not remain for more than 6 to 9 months. To illustrate, during the first four NIMH award periods the numbers of discharges were 5, 7, 21, and 20, respectively. The average time participants spent in VisionQuest also decreased markedly after this guideline was issued. During award periods 5 and 6, the discharges numbered 60 and 90, respectively. (See table I.2.)

HHS in its written comments offered several explanations as to why the Cubans remained in the VisionQuest program for long periods of time.

One of the explanations was that, during most of 1985, no discharges were allowed.

We continue to believe that had NIMH monitored VisionQuest's program more closely, decisions affecting the turnover of Cuban participants would have been made more timely and the average time of participation would have been less. Also, as shown in table I.3, the Cubans stayed in VisionQuest's projects for the longest average time before 1985 when there were no restrictions on admissions and discharges.

Effectiveness of Service and Treatment Not Evaluated

VisionQuest's stated program objective was to treat Cuban entrants and help them in making the transition to life in the United States. Although VisionQuest obtained information on the destinations of the Cubans as they left the program, it did not seek subsequent information. No one actively followed up on the Cubans after they were discharged from outpatient treatment programs, according to NIMH officials. Consequently, the effectiveness of VisionQuest's treatment and service activities has not been evaluated.

VisionQuest compiled data on 203 Cubans discharged from its program from February 1983 to February 1988. Of these, 77 Cubans (38 percent) were released into the community, and 32 transferred to the Department of Justice After Care Sponsorship program. Also, 42 had been reinstitutionalized for inpatient mental health care, and 7 were returned to prison. Twenty-two of those discharged were transferred to other outpatient treatment programs funded by NIMH; 19 of these transfers occurred during award period 6 (Dec. 1, 1986-Feb. 29, 1988). Seventeen of the discharged Cubans were classified as being absent without leave and their whereabouts were unknown, while 2 were repatriated to Cuba, and 4 were released on technical discharges with their destinations unrecorded. At the time of our review, NIMH had developed no data on the destinations of Cubans leaving the VisionQuest programs.

HHS in its comments stated that RMHP in 1985 instituted a peer review program to evaluate and improve the quality of its projects. Since then, according to HHS, a vigorous review under this program took place before each VisionQuest award period. HHS in its comments also stated that RMHP does not have the mandate, funding, or staff to conduct post-discharge studies of Cubans who leave VisionQuest's projects.

Before each VisionQuest award period since 1985, a peer review was to occur. We believe, however, that more information on effectiveness of

services should be provided by VisionQuest for review by these teams. As part of this effort we continue to believe that, as a minimum, VisionQuest should be required to provide information to RMHP on the destinations and other pertinent details of Cubans leaving its programs. We do not believe that RMHP needs a mandate to obtain such post-discharge data, nor that obtaining these data would be a financial burden to VisionQuest or RMHP.

Documents Missing From Official Files

All pertinent documentation relating to the financial management and administrative aspects of a particular grant or cooperative agreement must be maintained in the official file by the responsible grants management officer, according to the HHS Grants Administration Manual. In addition to project proposals and accompanying budget requests submitted by applicants and award notices issued by NIMH, documents to be maintained include (1) records of negotiations and eventual agreements of project budgets, (2) written requests for rebudgeting of funds among cost categories and written approvals to do so, and (3) grant/cooperative agreement monitoring statements.

The official files on VisionQuest made available to us by the grants management officer did not include all the documentation required (as discussed below). As a result, we could not determine whether NIMH and VisionQuest had fully complied with HHS and PHS policies concerning the cooperative agreement awarded for Cuban entrant services.

Supporting Documents for Approved Budgets Not on File

For each cooperative agreement award period, separate budgets and narrative proposals were to be submitted by VisionQuest and separate award notices issued by NIMH. In some instances, however, VisionQuest budgets were submitted without detailed narrative proposals outlining program objectives and explaining how the funds would be used. In general, VisionQuest received about the same amount of funds it requested in its budget submissions, these documents revealed. When the amounts requested and awarded differed, we found no documents indicating whether NIMH had negotiated with VisionQuest on each line item of the budgets. For example, in award period 2, VisionQuest requested $1,590,607 and received $1,509,608. The distribution of funds among cost categories shown in the award notice, however, differed from the amounts in the budget application.

During award period 3, VisionQuest requested $3,403,965 and $274,500 in separate budget applications and received those exact amounts from

NIMH. The various cost categories for these two awards were funded for the exact amounts requested by VisionQuest. In early January 1985, these two projects were extended for 3 months and formal award notices amounting to $850,975 and $68,625 (one-fourth of the previous 12-month awards) were issued by NIMH. There were no proposals or budgets for the extensions of these two projects in the official files to explain how the funds would be spent by cost category.

HHS, in its written comments, stated that letters dated January 16, 1985, were received by RMHP reflecting the additional amounts—$850,975 and $68,625—by cost category. These letters were not in the official files when we conducted our audit.

For award periods 4, 5, and 6, we could not compare the budget applications with the award notices by cost category to determine why the budgets had changed. The official file lacked documentation of the negotiations between VisionQuest and NIMH. Nor were there supporting data as to which items within a cost category had been deleted, decreased, added, or increased. As a result, for example, we could not determine within the "personnel" cost category the number of VisionQuest staff positions to be funded or what the authorized salaries for these staff were. Within the "direct client expense" cost category, we could not tell which participant cost items (e.g., food, clothing, allowances) were changed during budget negotiations.

In award period 5, VisionQuest was issued an award notice for $419,158 by NIMH, which extended its project by 2 months. As with award period 3, there was no narrative proposal or budget request for this extension in the official files to explain how the funds would be spent. We could not determine how the $419,158 estimate was developed.

In its written comments HHS explained that VisionQuest on November 5, 1985, requested $3,075,550 for award period 5 and on December 9 1985, the Special Review Committee recommended for approval that same amount of funding. According to HHS's comments, because of budget uncertainties, full funding was not immediately forthcoming and the $419,158 referenced in our report represented the final increment of the total approved budget of $2,976,160 for award period 5. The documents mentioned in these comments were not made available to us during our audit.

HHS said also that RMHP and VisionQuest officials negotiated award period budgets verbally by telephone before written budget proposals

were submitted by VisionQuest. HHS acknowledged that RMHP had not prepared documentation as support for these negotiations. A memorandum for the record should be included in the file to document the negotiation process, HHS agreed, saying this will occur in the future.

Funds May Have Been Rebudgeted Without Authorization

A basic condition of the cooperative agreements was that VisionQuest could not rebudget funds among cost categories without prior written approval from NIMH.

In November 1985 during award period 4, VisionQuest submitted two written requests to NIMH to rebudget funds from one cost category to another, the files showed. In neither case, however, did they indicate that NIMH approved these requests. The reprogramming requests involved $458,896 and $65,564, respectively, for a total of $524,460. Because detailed expenditure data were not submitted to NIMH, we could not determine whether VisionQuest actually rebudgeted the funds as it requested. In August 1986, VisionQuest requested authorization to rebudget among cost categories. NIMH approved this request on September 22, 1986.

Although we found documentation of only three rebudgeting requests, VisionQuest may have rebudgeted funds on other occasions, primarily because of the uncertainties regarding the admission of participants into the program and how long they would remain.

We discussed these issues with the staff of the HHS OIG, who agreed to gather detailed expenditure data, by cost category from VisionQuest. With these data they will be able to ascertain the purposes for which federal funds were spent, assess whether VisionQuest rebudgeted funds among cost categories, and determine whether prior approval from NIMH had been obtained.

Based on preliminary information obtained from the HHS OIG, VisionQuest routinely rebudgeted funds among cost categories without requesting or receiving prior authorization from NIMH to do so. Further, these rebudgeting actions were not reported to NIMH after they took place.

Monitoring Statements Not Maintained

During the time VisionQuest received funds through the NIMH cooperative agreements for the Cuban entrant program, NIMH officials made several formal site visits and other informal monitoring visits to

VisionQuest headquarters in Tucson. In addition, a public accounting firm analyzed VisionQuest's financial management and accounting systems when it first started receiving funds for the Cuban program and issued an advisory report in December 1983. In 1986 and 1987, a public accounting firm conducted audits and reports were issued on each. These reports (described in more detail below) included findings and recommendations to VisionQuest to improve its programs. In such cases, NIMH (the responsible agency) was to prepare monitoring statements to ensure VisionQuest gave full consideration to the recommendations and took appropriate action. The official file included no monitoring statements to show whether these items were resolved.

On-Site Program Evaluations by NIMH

At the conclusion of most on-site and monitoring visits, NIMH officials made suggestions or recommendations to VisionQuest officials to consider or act on to improve various aspects of the Cuban program, according to documentation provided by NIMH. Some recommendations dealt with the administrative or financial responsibilities of the NIMH grants management officer. The official cooperative agreement file maintained by this official, did not, however, include follow-up data to show whether the recommendations were being implemented or that other NIMH officials were monitoring the VisionQuest program to ensure that recommendations were implemented.

Financial Management Report by Accounting Firm

Although its December 1983 advisory report included only limited analyses and reported that VisionQuest had basic financial controls generally in place, the public accounting firm made several specific recommendations. Two, dealing with financial controls, were that VisionQuest

- submit a detailed proposal to NIMH to obtain formal approval for reimbursement of indirect costs and
- establish a separate general ledger for federal cash, which would be reconcilable to required reports submitted to federal agencies.

Another recommendation was that NIMH assess VisionQuest's overall management to determine alternative means of managing the program. The accounting firm questioned VisionQuest's modifications to its American program to accommodate the Cuban entrants and its reluctance to articulate short-term goals for the Cuban participants in its management plan. The official files included no evidence that these recommendations were monitored by NIMH and/or implemented by VisionQuest.

HHS, in its comments, said that since 1985 in addition to review panels, an annual peer review program has evaluated the quality of VisionQuest's program. According to HHS, based on the review of outside experts, RMHP program staff have determined that the quality control procedures in place have adequately assessed VisionQuest's management plan and that it is acceptable. Consequently, implementation of the accounting firm's recommendations were not pursued. We asked the NIMH grants management officer for documentation relating to these issues, but were told that no documents had been prepared to specifically support these comments.

HHS stated also that the director of financial planning for VisionQuest in a May 5, 1986, letter to RMHP explained that a separate ledger for federal cash was not necessary because VisionQuest's system of job costing clearly identified federal grant and cooperative agreement expenditures. HHS's comments indicated that the NIMH Grants Management Officer accepted this explanation.

We obtained a copy of this letter, which was prepared 30 months after the accounting firm's advisory report had been issued. As discussed below, however, another public accounting firm's audit report covering VisionQuest's fiscal year ending June 30, 1986, again cited VisionQuest's failure to maintain separate general ledgers and cash accounts for each of its federal programs. HHS did not comment on this statement.

Audit Reports by Public Accounting Firm

The public accounting firm's audit report on VisionQuest's fiscal year ending June 30, 1986, which was the first audit report that covered VisionQuest's Cuban program, cited several noncompliance findings. These included VisionQuest's failure to maintain separate general ledgers and cash accounts for each of its federal programs (i.e., NIMH and CRS) and to file financial status reports in a timely manner. Also noted were discrepancies in the way VisionQuest allocated burden costs (indirect costs) among its programs.

There was no evidence (i.e., a grant monitoring statement) in the official files that these recommendations were implemented or the findings otherwise resolved, as required by HHS grant administration policies.

The NIMH files contained no documentation to show that the ORR award and the first three NIMH awards to VisionQuest were audited. During these four award periods covering 45 months, ORR and NIMH awarded

about $9.3 million for this program. A standard condition of the VisionQuest cooperative agreement required an independent audit of federal funds at least every 2 years.

In May 1988, a second audit report on VisionQuest, covering its fiscal year ending June 30, 1987, was issued by a public accounting firm and part of this report dealt with federally funded projects. This report discussed several problems, but no recommendations were addressed to VisionQuest.

Indirect Cost Rates Not Developed for VisionQuest

Generally, when an organization receives federal funds through a grant, cooperative agreement, or contract, develops a budget, and incurs expenses, it designates costs as direct or indirect, i.e.:

- A direct cost is any that can be identified with a specific cost objective or a grant, cooperative agreement, or contract. Examples include: personnel assigned to a particular grant project or equipment purchased for use in a specific project.
- An indirect cost is one identified with two or more cost objectives. After direct costs have been identified in total, an indirect cost rate is developed to determine the indirect cost amounts applicable to each project. Indirect costs are accumulated by logical cost groupings to permit distribution of the groupings on the basis of the benefits accruing to the several cost objectives. Examples of indirect costs include: administrative staff whose efforts benefit several grant projects, automatic data processing equipment shared by several programs, and rental costs for office space used by staff not assigned to a particular grant or cooperative agreement project. The allocation process to arrive at an indirect cost rate takes into consideration the estimated indirect costs and the extent to which these costs are applicable to all projects, including those funded by federal agencies.

During the 1980s, VisionQuest provided services under contracts with several state and county law enforcement agencies, in addition to the services for Cuban entrants funded with federal grants and cooperative agreements. The approved budgets for VisionQuest's federal projects may have included provisions for costs that could not be directly attributed to these federal projects. VisionQuest did not, however, categorize these as indirect costs, but as "burden allocation," and included them in the cooperative agreement budgets as part of direct costs. No explanation of why VisionQuest was permitted to charge these as direct costs was contained in NIMH's official file. Nor was there evidence that NIMH

received a full explanation of the basis (items included as burden) for the "burden allocation" estimated by VisionQuest or that the federal Cuban entrant program was charged no more than its fair share of these costs.

An ADAMHA official agreed with our assessment that (1) the VisionQuest burden allocation costs should have been categorized as indirect costs for each fiscal year, (2) the items included as burden should have been reviewed by HHS or ADAMHA, and (3) an appropriate indirect cost rate should have been developed for each fiscal year that VisionQuest received funds from NIMH. ADAMHA in May 1988 requested information from VisionQuest on the items identified as burden allocation and how the NIMH share was computed, an ADAMHA official told us. As of December 9, 1988, however, VisionQuest had not responded to this request.

VisionQuest requested about $2.4 million for "burden allocation" during the six award periods covering January 1983-February 1988, we calculated. Between award periods 1 and 6, the ratio of estimated burden allocation costs to total estimated cooperative agreement costs in the approved budgets increased from 8 to 21.4 percent. But we could not substantiate that the burden amounts VisionQuest claimed were appropriate, as the official file included no data to document how VisionQuest developed these budget amounts.

The HHS/OIG staff agreed to obtain data from VisionQuest records on "burden allocation" amounts charged as expenditures to the Cuban entrant cooperative agreements. HHS in its comments stated that ADAMHA is committed to review VisionQuest's burden allocation in fiscal year 1989.

VisionQuest Did Not Submit Required Expenditure Reports

PHS requires grant and cooperative agreement recipients to submit a report of expenditures, the Financial Status Report. Required at least annually for each budget (award) period, the report is to be submitted no later than 90 days after the close of an award period, unless the awarding agency extends the reporting time.

VisionQuest received cooperative agreement funds from NIMH for seven award periods from January 1983 to October 1988. The firm submitted no financial status reports until March 1986, about 2 months after NIMH award period 5 started, when it simultaneously submitted reports for its first four NIMH award periods. All four reports were revised at the direction of the NIMH grants management officer. They were put into final

form and accepted by NIMH in July 1986. (Data from these reports and for award period 5 appear in table I.4.) According to PHS criteria, the financial status reports should have been submitted for NIMH award periods 1 though 4 by October 1, 1983, April 1, 1984, July 1, 1985, and April 1, 1986, respectively.

Table I.4: Summary of VisionQuest Financial Status Reports
(Jan. 1981-Nov. 1986)

Award period	Amount awarded	Amount spent	Budget surplus	Budget deficit
ORR	$1,652,602	$1,694,065	•	$41,463
NIMH:				
1	1,456,190	1,321,803	$134,387	•
2	1,590,608	1,587,644	2,964	•
3	4,598,065	4,667,887	•	69,822
4	2,775,796	2,860,661	•	84,865
5	2,976,160	2,746,171	229,989	•
Totals	**$15,049,421**	**$14,878,231**	**$367,340**	**$196,150**

Source: VisionQuest financial status reports

Failure to submit required reports within the time allowed may result, according to the HHS Grants Administration Manual, in various enforcement actions. These include suspension or termination of an active grant or cooperative agreement, withholding of additional awards, withholding of payments, or changing to the reimbursement method of payment. If the recipient provides an acceptable explanation for the late submission of a report, PHS policy allows the awarding office to waive the reporting requirement or set a new due date. No documentation was on file to show that NIMH officials granted a waiver or extension or initiated enforcement action.

The total funds approved for VisionQuest for award period 6 were decreased by $171,190, NIMH records showed. This, according to the NIMH award notice for award period 6, was the amount of carryover funds available at the end of award period 5. But by our calculations, this figure was arrived at by subtracting the cumulative amount spent from the cumulative amount awarded for VisionQuest's first six award periods. This was improper, because PHS guidelines require a separate financial report for each award period, not combined reports as NIMH permitted in relation to VisionQuest's program.

Further, if the recipient reports a deficit on the financial status report, PHS guidelines require the grants management officer and the recipient organization to discuss the possibility of requesting supplemental funds.

If the financial status report shows a balance of funds at the end of the award period, the grants management officer may

1. subtract the unobligated balance from the federal share of the approved budget amount prepared for the next award period,

2. increase the amount of funds authorized for the next award period by the unobligated balance reported, or

3. ask the recipient organization to return the unobligated funds to NIMH.

According to these criteria, which specifically refer to separate adjustments for each award period, VisionQuest should not have been allowed to combine surpluses and deficits for six award periods. (See table I.4.)

For budget period 6, Dec. 1, 1986-Feb. 29, 1988, VisionQuest reported spending $2,540,642 of the $2,606,995 it was awarded and that it had a $66,353 surplus. The NIMH initial period 7 award notice did not indicate that VisionQuest had a surplus from award period 6.

In its written comments on a draft of this report, HHS explained that NIMH was not provided with a copy of the ORR award period files and that it therefore had no knowledge of the closeout activities for this award period. According to HHS's comments, NIMH considered the closing balance of the ORR award period to be zero until VisionQuest submitted an expenditure report showing that it overspent the ORR cooperative agreement by $41,463. HHS said that necessary adjustments may be made after HHS's OIG issues its audit report.

HHS stated also that it was NIMH's intent to retain funds within each cooperative agreement's project period to allow VisionQuest maximum flexibility toward adequate funding. Also, HHS said that verbal assurances had been given that unobligated balances would be available as carryover. But until financial status reports were received and processed, HHS added, NIMH could not take formal action.

Despite HHS's explanations of these issues, we continue to believe that the NIMH grants management officer did not carry out his duties as required by federal law and regulations in that he did not require VisionQuest to submit required financial status reports on time. We believe he compounded the problems by not complying with federal requirements to document funding and carryover decisions in official files.

Finally, we sought specific evidence that VisionQuest was permitted to spend more funds for the ORR award period and NIMH award periods 3 and 4 than had been authorized in the official cooperative agreement award notices. But NIMH provided no such documentation during our audit.

Leasing Arrangements Not Documented at NIMH

Details of the leasing arrangements for living facilities, vehicles, equipment, and furniture between VisionQuest and various lessors were not documented in NIMH's official files. Thus, we could not determine the allocability of the costs VisionQuest charged to the Cuban entrant cooperative agreements.

According to Federal Acquisition Regulations, rental costs incurred through leases are allowable provided the rates are reasonable when the arrangements are decided and the following have been considered: (1) rental costs of comparable property; (2) market conditions in the area; (3) the type, life expectancy, condition, and value of the property to be leased; and (4) available alternatives. The NIMH official files included no documentation as to these considerations. Also, the budget proposals submitted by VisionQuest concerning lease agreements included only general descriptions of the types of property to be rented.

Lease costs included in the cooperative agreement budgets funded by NIMH from 1983 to 1988 totaled about $1.3 million. Some of the lease agreements charged to the Cuban entrant program were for property leased to VisionQuest by its stockholders and employees (related parties). Because VisionQuest's budget proposals included only general information on the types of property to be leased, we could not determine the extent to which VisionQuest entered into leases with related parties. Furthermore, since no formal documentation was prepared on the budget negotiations between VisionQuest and NIMH, details on the ownership, age, value, or condition of the leased property were not included in the official file.

According to NIMH officials, VisionQuest preferred to lease property rather than procuring new property for the Cuban entrant program. VisionQuest and NIMH believed that the lease approach would be in the best interests of the federal government. Lacking documentation, we could not determine that this was the case.

We discussed with the HHS OIG staff the issues of VisionQuest's leasing arrangements and the related charges to the NIMH cooperative agreements. They agreed to obtain documents and records from VisionQuest to ascertain the leasing costs charged to the Cuban project and the extent and propriety of VisionQuest's leases with related parties.

Conclusions and Recommendations

NIMH did not carry out its overall administrative and program monitoring responsibilities as required by HHS and PHS policy statements. Also, NIMH did not follow its established internal control guidelines and enforce program requirements, including the provision that VisionQuest arrange for independent audits of its federal projects at least every 2 years.

Also, VisionQuest may have rebudgeted funds without prior approval from NIMH, according to NIMH documents we reviewed, and the way that VisionQuest leased property and charged these costs to the cooperative agreements may have violated federal regulations. Indirect cost rates were not developed for any award periods.

Finally, in addition to VisionQuest, NIMH since 1983 has funded other organizations through the RMHP to conduct community-based treatment programs for Cuban entrants. If NIMH administered the cooperative agreements with these other organizations in the same way as the VisionQuest projects, similar deficiencies and oversights may have occurred.

Therefore, we recommend that the Secretary of HHS direct PHS grants management and program officials to

- evaluate NIMH's procedures, activities, and records relating to VisionQuest's cooperative agreements and obtain and develop needed documentation to bring NIMH's official files into compliance with PHS policies, and
- review NIMH's administration of all cooperative agreements for community-based treatment of Cuban entrants to determine whether NIMH carried out its responsibilities in compliance with PHS policies.

Agency Comments

HHS in its written comments concurred with our recommendations. HHS stated that for the major issues cited, NIMH has taken corrective action to bring its files into compliance with PHS policies. HHS indicated that NIMH grants management and RMHP officials have initiated a process for

reviewing and monitoring their administrative procedures. HHS said PHS would ensure that these recommendations are implemented during fiscal year 1989.

HHS also furnished technical comments on various segments of the report to clarify and augment the facts we presented. These technical comments have been included, as appropriate, in the report. HHS's complete comments are included in appendix II.

Comments From the Department of Health and Human Services

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

DEC 9 1988

Mr. Lawrence H. Thompson
Assistant Comptroller General
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Thompson:

Enclosed are the Department's comments on your draft report, "National Institute of Mental Health: Inadequate Administration of VisionQuest Projects." The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

The Department appreciates the opportunity to comment on this draft report before its publication.

Sincerely yours,

Richard P. Kusserow
Inspector General

Enclosure

COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES
ON THE GENERAL ACCOUNTING OFFICE'S DRAFT REPORT,
"NATIONAL INSTITUTE OF MENTAL HEALTH:
INADEQUATE ADMINISTRATION OF VISIONQUEST
PROJECTS," OCTOBER 1988

GENERAL COMMENTS

We appreciate the opportunity to comment on the General Accounting Office (GAO) draft report. Although we acknowledge the obvious efforts of the GAO auditors, we believe that the content of the report does not accurately describe the nature of the VisionQuest program or its administration by the Public Health Service (PHS). Furthermore, the report neither recognizes nor incorporates conversations with officials of the Refugee Mental Health Program (RMHP), National Institute of Mental Health (NIMH), U.S. Public Health Service (PHS), concerning problems and issues cited in the GAO report, which problems have, in fact, already been corrected or are in the process of being corrected.

In order to present an accurate picture, we request that the report set out the history and emergency circumstances out of which the subject VisionQuest Cuban program was conceived. Therefore, the following information should be included in the introduction of the GAO report:

> In April 1980, a massive flow of Cuban entrants took place from the Port of Mariel, Cuba, to the United States. A total of 125,000 Cubans ("entrants") arrived in the United States between April and October 1980, which represented an unprecedented flow of people to this country. It is important to note that this migration was totally unanticipated, that the entrants typically arrived with no documentation, and that a significant number of people with mental disorders and/or criminal backgrounds were a part of the entrant group.
>
> As the United States, through various components and Agencies, including the PHS, was responding to the emergency by attempting to resettle the entrants, disturbances erupted in various refugee camps around the country. As a result of these disturbances, and numerous press reports of severe criminality and mental

illness among the entrants, a public perception was created which was generally negative, especially toward those entrants with any social disabilities or mental illness. A direct effect of this negative perception was that communities around the country resisted the establishment of local treatment programs for the Cubans. The responsibility to provide mental health services to the Cuban entrants presented an unprecedented challenge to NIMH. The Refugee Mental Health Program (formerly the Cuban/Haitian Mental Health Unit) aggressively pursued any and all mental health providers which had expressed an interest in working with this population. Providers had to be willing to treat a unique population of clients who presented many problems, including clients who were illiterate in their native language as well as English, who usually possessed no job skills, who were minorities, who had been institutionalized most of their lives, and who came from a communist society with no awareness of the responsibilities of living in an open democratic society. Furthermore, the challenge included dealing with a chaotic atmosphere which was created by the emergency immigration. Hence, providers had to be willing to provide clinical services in a bilingual/bicultural environment to a largely unknown and unstudied culture and population. Moreover, providers who agreed to work with this population incurred great risk to their existing operations. Typically, willing providers had to face public resistance, difficulty with and harassment by local licensing agencies and political units (such as city councils), and negative and often inflammatory press coverage.

As a result of these risk factors, it became nearly impossible to attract providers. VisionQuest, in spite of the inherent risks, agreed to establish a specifically designed program for Cuban entrants.

The following comments are provided to the specific GAO Recommendations.

GAO RECOMMENDATIONS

See p. 33.

GAO recommends that the Secretary of Health and Human Services:

-- Direct PHS grants management and program officials to evaluate NIMH's procedures, activities, and records relating to VisionQuest's cooperative agreements, and obtain and develop needed documentation to bring NIMH's official files into compliance with PHS policies.

Department comment:

We concur. Well documented files that conform to PHS policies are consistent with NIMH goals. However, we believe that the major issues cited in the report show that corrective action, where indicated, has been taken or is being taken to bring the files completely into compliance. Periodic monitoring will be initiated to assure that compliance is maintained.

See p. 33.

GAO recommends that the Secretary of Health and Human Services:

-- Direct PHS grants management and program officials to review NIMH's administration of all cooperative agreements for community-based treatment of Cuban entrants, to determine whether NIMH carried out its responsibilities in compliance with PHS policies.

Department comment:

We concur. The NIMH grants management and RMHP officials already have initiated an internal process for reviewing and monitoring their administrative procedures. PHS officials will work in conjunction with NIMH staff to assure that this recommendation is carried out in Fiscal Year 1989.

The following Technical Comments are provided to correct inaccuracies in the GAO report. The below headings and page numbers correspond to GAO report headings and page numbers.

TECHNICAL COMMENTS

Now on p. 12.

HHS AND JUSTICE RESPONSIBLE FOR CUBAN ENTRANTS (Page 18)

The last two sentences of this section state that "774 Cubans" received RMHP services and that "1,300 Cubans" remain institutionalized in prisons and mental hospitals. These figures should be corrected to read "1,774 Cubans" and "3,245 Cubans," respectively.

Now on p. 13.

TREATMENT PROVIDED IN THREE COMPONENTS (Page 19)

This section of GAO's report includes a number of inaccuracies. NIMH, PHS, and the Justice Department are referred to as if each had direct responsibility for administering the VisionQuest program. NIMH, through the RMHP and cooperative agreements, does directly administer the VisionQuest program, as well as other residential treatment programs which provide psychiatric care to Cuban entrants in community based residential facilities. PHS develops and administers interagency agreements between the Department of Justice and other PHS components (of which NIMH is a part) which relate to the Cuban program, including funding. The Justice Department, specifically the Immigration and Naturalization Service (INS), has the ultimate legal responsibility for the individual Cuban entrants. However, while an entrant is being treated in an outplacement project, he or she is on parole to the RMHP. There must be concurrence between the local project director, the NIMH government project officer and the INS before admitting and discharging entrants to and from outplacement projects.

Now on p. 13.

Another erroneous statement (page 19) is that Cuban entrants have been "placed in the system according to assessments conducted by NIMH, PHS, or Justice." However, the roles of these three organizations vis a vis an entrant's placement are very different. The Justice Department determines whether an entrant may be released from prison as a potential candidate for an outplacement program. The entrant may then be evaluated by RMHP project staff as a potential candidate for a RMHP outplacement program.

The report lists "three major components" of the NIMH Cuban program to include the Atlanta Federal Penitentiary. The prison is not a component of NIMH or the NIMH Cuban program, and is, instead, a part of the Bureau of Prisons. However, mental health consultants hired by the RMHP do conduct mental health evaluations of Cuban entrants in the Atlanta Penitentiary.

Now on pp. 14-15.

VISIONQUEST NATIONAL, LTD.
PROVIDES YOUTH SERVICES (Pages 22-23)

The statement that no data had been compiled by NIMH on the number of Cubans who have participated in the HomeQuest program is incorrect. Although data was not available in the exact form in which it was requested, such data was readily retrieved and given to the GAO auditors (the type of information requested was available in client records which are kept in the RMHP office).

VisionQuest maintains ongoing client records on a daily basis. The RMHP office maintains clinical records on all entrants, which include mental health evaluations, client progress reports, special incident reports, and other related material. In addition, upon discharge, the entire client file is returned to and maintained by the RMHP.

Report revised.

The report stated that NIMH had not kept data on the actual number of Cuban entrants referred to the Community Relations Service (CRS) program (page 23). However, VisionQuest is required to submit monthly and quarterly reports to the RMHP. These reports summarize admissions, discharges, programmatic activities, and other statistical information, including whether an entrant has been referred to CRS. It was explained to the GAO auditors that the RMHP is in the process of computerizing admission, discharge, and other entrant data. Copies of such tables, which included referrals to the CRS aftercare program, were supplied to the GAO auditors.

Now on pp. 18-20.

FUNDING NOT RELATED TO
CUBANS PARTICIPATING (Pages 29-32)

The GAO report (pages 29-31) suggests that VisionQuest funding should have been adjusted to the actual, as opposed to the projected, number of entrants sent to the program. However, the VisionQuest Cuban entrant project has features distinct from other VisionQuest activities, which require unique staffing characteristics such as bilingual/bicultural capacity. Thus, staff were not readily transferable, as described below, and VisionQuest would be in an untenable position if they were asked to hire and fire staff based on current capacity.

Now on p. 19.

It is correctly pointed out in the GAO report (page 31) that the cooperative agreement states that NIMH will try to maintain maximum capacity but cannot guarantee that the quota will be met. NIMH reserves the right to renegotiate the budget to make it commensurate with actual number of entrants received. However, various factors impact this right and were discussed with the GAO auditors. For instance, in addition to the ongoing variability of the census, there was

a period between December 1984 and September 1985 when no admissions or discharges were permitted for any program. The capacity to admit entrants had to remain at the funded level so that the program could retain its ability to respond when admissions were again allowed. In another case, because of budget cuts, the budget had to be renegotiated and the project census had to be decreased by fifty percent.

Now on p. 20.

The report acknowledges fixed costs but does not give any weight to them (page 32). The auditors seem to have assumed that the fixed costs of this program are minimal. They also have assumed that the Cuban program shares costs associated with other, completely distinct, VisionQuest programs. For example, the GAO report refers to costs of personnel as if such costs could be adjusted in ratio to patients. Many of these costs, which in a normal environment could be adjusted with little effect on the program, cannot be adjusted under the Cuban program. Also, the Cuban entrants are not allowed to mingle or become homogenous with VisionQuest's State and local participants. Besides the language and cultural differences between the Cuban and American VisionQuest clients, the mingling of the client populations is not possible because of the age and criminal background of many of the Cuban entrants. Hence, these costs should more aptly be referred to as inflexible costs. Costs that are fixed and inflexible are also due to the discretionary aspects and unpredictable nature of the program (also see below).

Now on pp. 20-22.

PARTICIPATION OF SOME CUBANS "LONG" (Page 33)

The report noted that entrants' length of stay in the program was "long" prior to the issuance of the RMHP term admission policy in 1986. It is true that many entrants remained in the program for longer periods during the early years of the program than in more recent years. In early years, the Cuban entrant was a unique type of client, differing in many ways from the population the program had dealt with in the past. Many had spent years in prison, some were illiterate in their own language, and they all were from a communist country with a different culture. Little was known at the time about how to treat them. Treatment concepts evolved as staff gained experience. Also, in the early years of the program, there was no CRS program. Moreover, as stated before, there was a long period of time in 1985 during which discharges were not allowed.

Now on pp. 22-23.

EFFECTIVENESS OF SERVICE AND TREATMENT NOT EVALUATED (Pages 35-36)

The report criticizes program officials for not instituting an evaluation program or a follow-up program. However, in

1985, the RMHP instituted a Peer Review Program. The program consists of annual peer reviews of the RMHP supported programs by mental health experts from outside of the Government, and experts within the Government but external to the RMHP. The purpose of the Peer Review Program is to evaluate and improve the quality of the projects. A standard protocol is used as a guide, in addition to the professional judgment of the consultants. Also, prior to each new competing continuation award, a rigorous panel review is conducted on each applicant. The panel is comprised of experts outside the RMHP. Thus, program evaluation is, in fact, an integral part of the RMHP operations.

Regarding the follow-up of clients, it is true that the RMHP has not conducted post-discharge studies. The RMHP is interested in pursuing such studies, but has not received any mandate, funding, or staff to undertake such a program. In other words, the RMHP mission and funding would have to be expanded in order to undertake such a responsibility. In addition, there are many legal issues which would have to be addressed before consideration could be given to instituting follow-up activity. These issues would include determining PHS authority for follow-up after a client is discharged, and determination of the right to intrude in an entrant's life after he or she is taken off parole and has become a free agent (see 45 C.F.R. Part 46).

Now on pp. 23-25.

SUPPORTING DOCUMENTS FOR APPROVED BUDGETS NOT ON FILE (Pages 37-39)

The GAO auditors have expressed concerns that funding amounts awarded to VisionQuest by the RMHP were generally consistent with funding amounts requested by VisionQuest. It was explained to the GAO auditors during meetings with NIMH staff that the RMHP has a set budget, that a determination is made in advance of VisionQuest's actual budget submission as to how much may be requested, and that budgets are negotiated verbally by phone prior to application submission and award. An awardee's budget documents reflect an agreement reached during those negotiations. Subsequent changes to an award reflect the need to tailor individual categories to the format of the Notice of Award. We agree, however, that a memorandum for the record should be included in the file to document the negotiation process, and this will occur in the future.

Now on p. 24.

The auditor's statement that there were "no proposals or budgets for the extensions of these two projects" is incorrect (page 38). Letters dated January 16, 1985, were received from VisionQuest reflecting the total additional dollars by cost category.

Now on p. 24.

The reference to a similar situation in the 05 budget period is also inaccurate (page 39). The total funds requested by VisionQuest on November 5, 1985, and recommended for approval by the Special Review Committee on December 9, 1985, for the 05 budget period were $3,075,550. Because of budget uncertainties, full funding was not immediately forthcoming. The $419,158 referenced in the report represented the final increment of the total approved budget of 2,976,160 funds for the 05 year.

Now on p. 25.

FUNDS MAY HAVE BEEN REBUDGETED WITHOUT AUTHORIZATION (Pages 39-40)

We disagree with the auditor's statement that only two rebudgeting requests are documented in the files. A third was discussed with an auditor and documentation was provided. A letter of August 12, 1986, requested the rebudgeting and the Notice of Award, dated September 22, 1986, reflected NIHM's approval of the request.

Now on pp. 26-27.

FINANCIAL MANAGEMENT REPORT BY ACCOUNTING FIRM (Page 42)

The report states that the official files show no evidence that the recommendations of a public accounting firm regarding VisionQuest's management plan, were monitored or implemented by the NIMH or VisionQuest. However, the 1983 Government Project Officer took considerable issue with that firm's comments on what were essentially programmatic issues. A panel of mental health professionals reviewed VisionQuest's application, including its management plan, and found it to be acceptable. Program officials accepted the panel's recommendations. Since 1985, in addition to review panels, an annual peer review program has evaluated the quality of the program. Based on the review of outside experts, program staff have determined that the quality control procedures in place have adequately assessed the management plan and that it is acceptable. For these reasons, implementation of the CPA's recommendations were not pursued.

Now on pp. 27-28.

AUDIT REPORTS BY PUBLIC ACCOUNTING FIRM (Pages 42-43 and 52)

We disagree with GAO's statement that there is no documentation in the official files regarding the establishment of a separate ledger for cash. The Director of Financial Planning for VisionQuest, in a letter dated May 5, 1986, discussed the issue of separate ledgers for cash accountability, which had been recommended by the cost advisor/CPA. Her response was that such a separation was not necessary since VisionQuest's system of job costing clearly identified grant versus non-grant expenditures.

Additionally, she indicated that Division of Federal Assistance Financing reports were reconcilable to VisionQuest's "Job Cost to Date" reports. This was accepted by the NIMH Grants Management Officer.

Now on pp. 28-29.

INDIRECT COST RATES NOT DEVELOPED FOR VISIONQUEST (Pages 44-46)

Last May, the Alcohol, Drug Abuse, and Mental Health Administration (ADAMHA) requested that VisionQuest provide information for the development and establishment of indirect cost rates. ADAMHA is committed to review the VisionQuest "Burden Allocation" in Fiscal Year 1989.

Now on pp. 29-32.

REQUIRED EXPENDITURE REPORTS NOT SUBMITTED (Pages 46-50)

Now on p. 30.

Table I.4 (p. 48) of the report does not accurately depict VisionQuest's financial status reports. First, the "budget deficit" incurred during the period of Office of Refugee Resettlement (ORR) administration of the project (July 1, 1981 - December 31, 1982) was not a deficit per se. Documentation in the official files clearly demonstrates approval of preaward costs incurred by VisionQuest prior to the transition from ORR to NIMH. During the final months of ORR support, VisionQuest was authorized to incur start-up costs to be charged against the initial year of NIMH support. The terms and conditions attached to the 01 year of the award clearly demonstrate approval of the preaward charges for screening and interviewing between September 25, 1982, and December 31, 1982. Since NIMH was not provided the ORR official files, NIMH has no factual knowledge regarding pertinent closeout activities. Thus, the FSR for the 18 months of ORR support could not be officially revised. In the interim NIMH has considered the ORR report to be a "0" balance and has applied the $41,463 as if it were preaward charges for the 01 year of the NIMH cooperative agreement. Based on the results of the HHS Office of the Inspector General audit, we will make any necessary changes.

It should be noted that because of the limited funding in the Cuban program appropriation, it was NIMH's intent to retain funds within each cooperative agreement's project period to allow maximum flexibility toward adequate funding. Verbal assurances had been given that unobligated balances would be available as carryover. However, until the financial status reports had been received and processed, no formal actions could be taken. Upon receipt of the reports in March 1986 funds were moved forward for appropriate disposition within the project period. As a result, the expenditure history reflects unobligated balances of $92,924, $95,888, and $26,066 for the 01, 02 and 03 budget periods, respectively.

The 04 year year reflects a deficit of $58,799. This amount, which in retrospect should also have been treated as preaward costs against the 05 year, was authorized by the NIMH Grants Management Officer as legitimate charges against the 05 year. Since the 05 year subsequently reflected a total balance of $171,190, NIMH had no need to consider providing any additional funding. As noted by the GAO auditors, the $171,190 was used as a funding offset by NIMH against the 06 award. Disposition of the $66,353 balance from the 06 year will be taken in the proposed 08 year.

Although the auditor's statements that financial status reports were not submitted within the prescribed time frames are accurate, VisionQuest has been in a current status for 3 years.

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